



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

214 O'Neill HOB # Washington, DC 20515 # 202-226-7200 # www.house.gov/budget_democrats

May 3, 2001

Vote *NO* On Bush Budget Conference

Dear Democratic Colleague,

I am writing to urge you to oppose the Republican budget conference agreement that will be voted on the floor of the House today. The conference agreement is being developed in a manner which abuses the Congressional budget process and circumvents time-honored House rules. The agreement sets our country on a dangerous budgetary path, leading us back to government deficits we worked so hard to eliminate.

Republicans will be asking us to vote on a conference agreement today that, as of 8:30 this morning, they are still negotiating. Since they haven't finished writing the document, they have not provided a copy of the agreement to the minority or filed it with the House Rules Committee. This departure from expected procedure follows the exclusion of Democrats from any meaningful participation in the conference, the absence of a markup by the Senate Budget Committee, and the adoption of House and Senate budget resolutions prior to the release of the President's budget. This watershed budget deserved a deliberative process, but has gotten almost no deliberation at all.

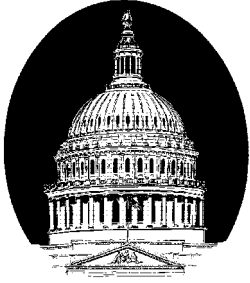
The end result of this outrageous process is a budget that is both incomplete and dangerously flawed. Because House and Senate conferees were unable to resolve their spending level differences, the budget resolution does not provide meaningful funding levels for discretionary programs. Instead, each of the non-defense discretionary levels is arbitrarily set to CBO baseline, thus failing to make any decisions about how to allocate these resources. This leaves no basis for evaluating the program priorities expressed in the budget. But we do know that the agreement funds domestic spending below the level needed to maintain constant purchasing power. Therefore, accommodating a large and unbalanced tax cut will require significant cuts to important domestic programs.

Finally, the overall tax and spending totals make clear that in pursuit of a large and unbalanced tax cut the agreement virtually eliminates the non-Social Security, non-Medicare budget surplus. Any additional expenditures (as expected in defense) or additional tax cuts (as expected), or any downward revisions of the surplus projections will drive us back into deficits.

I urge you to oppose this deeply flawed budget resolution, both because it is a bad plan and because it is being produced in a deeply flawed way.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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May 3, 2001. As of 7:00 this morning, the Republicans have yet to file a conference report. As a result, information about the conference agreement is very sketchy. This memorandum is based on the best information available as of 7:00 this morning.

Analysis of Republican Budget Resolution Conference Agreement

Summary

The conference report threatens the Social Security and Medicare surpluses; ignores impending major increases in spending on defense; cuts virtually all of the increase in education funding added by the Senate; and cuts the purchasing power of domestic appropriations for 2002 and over the next ten years, which will either force cuts in priority programs or force the Congress to spend even more deeply into the Medicare and Social Security surpluses to avoid those cuts. And this watershed budget, which dissipates virtually all of our hard-earned surpluses, has been brought forward by the Republicans in an outrageous abuse of the budget process — with the resolution filed only hours before it is to be adopted, without a Congressional Budget Office analysis of the President's budget or a Joint Tax Committee scoring of his tax cut, without a Senate Budget Committee markup, without the President's budget at the time of the adoption of House and Senate resolutions, and without any role for the Democrats on the conference committee.

- ! **The conference report virtually eliminates the budget surplus in the non-Social Security, non-Medicare operations of the federal government.** It thus puts the Medicare and Social Security Trust Fund surpluses in jeopardy. Any economic adversity or policy miscalculation could leave the government again spending out of the trust fund surpluses, instead of adding those surpluses to the nation's pool of savings for business investment to make the economy grow.
- ! **The conference report is a virtual empty shell.** It merely spreads non-defense discretionary spending at baseline levels across budget functions, leaving unmade all decisions about allocating these public resources. Because the domestic discretionary funds

in the agreement are not sufficient to maintain current government services, the budget makes real cuts in priority domestic investments. But the failure to list a meaningful dollar level for each budget function means that the Congress and the public can have no clear idea about what the budget really means for America. At the same time, the conference agreement specifies small mandatory spending increases — thus hiding the pain while providing selective benefits intended to achieve political advantage.

- ! **In particular, the increases in resources for education that were the crucial part of Senate action are virtually gone.** With total domestic discretionary spending below the level needed to maintain current services, there is no way that the promised increases can be achieved without either forcing painful reductions elsewhere in the budget to be even sharper, or spending the budget into the Medicare and Social Security Trust Funds.
- ! **The conference report thus makes even more clear that the Republicans' single overriding goal is a large tax cut, targeted to those who need it the least.** That tax cut leaves virtually no resources for any other public priority — be it reforming Social Security or Medicare; paying down the debt; providing prescription drug coverage under Medicare; strengthening education; protecting the environment; or addressing emergencies, from earthquakes to energy shortages. After this rush into an irrevocable ten-year tax-cut commitment, there will be no second chance.

Overview

- ! ***The Budget Surplus*** — Like the President's budget and the House- and Senate-passed budgets before it, the conference agreement dissipates virtually the entire non-Social Security, non-Medicare budget surplus over the full ten-year budget window. The surplus plunges to near zero, and stays there until nearly the end of the period. The conference report thus repudiates the policy of fiscal responsibility, low interest rates, investment, and economic growth that brought the United States the longest economic expansion in its history, and that brought the American people renewed growth of real wages and living standards.
- ! ***The Social Security and Medicare Trust Funds*** — The non-Social Security, non-Medicare surplus under the agreement is near zero for years — meaning that the federal government is almost spending the Medicare surplus to finance current operations, rather than adding that surplus to national saving to build a stronger economy and the wherewithal to meet future Medicare (and Social Security) obligations to today's wage-earners and payroll-taxpayers.
- ! ***Uncertainty and the Surplus*** — The surpluses under the conference report are so small that a return to deficits, and sizable spending of the trust fund surpluses, is a distinct possibility.

The Congressional Budget Office has reported that its average projection error *for a budget year in progress* is about 0.5 percent of the GDP (which is roughly \$52 billion this year, rising to about \$85 billion in 2011); the non-Social Security, non-Medicare surpluses under the conference agreement fall below that minimal level of security until the last two years of the ten-year budget window. More than 87 percent of the projected non-Social Security, non-Medicare surplus under the conference agreement would occur in the last five years of the ten-year budget window, when uncertainty is enormous. A shortfall of economic growth of about 0.2 percent per year — which is only the amount by which CBO has increased its ten-year average growth projection in the past 12 months — would entirely wipe out this surplus.

- ! ***Debt Reduction*** — If the conference agreement's assumptions and projections prove correct, and if this and future Presidents and Congresses do not increase spending or cut taxes for the next ten years, the conference agreement would pay down the net indebtedness of the United States government to the public by \$3.3 trillion over that period. This is more than \$350 billion below the debt reduction under the House Democratic budget resolution alternative.
- ! ***Abuse of the Budget Process*** — The House and Senate resolutions were passed before the President had submitted his full budget. (This was also true of the initial year of the Clinton administration; but the Clinton budget reduced deficits rather than dissipating surpluses.) The conference report will be voted upon before the Congressional Budget Office has submitted its analysis of the President's budget. (That was not true of the initial Clinton budget.) The Senate Budget Committee did not mark up its resolution; instead, it took its Chairman's mark directly to the floor. The conference met only once, for opening statements, after which the Democratic conferees were told that their services were no longer needed. The conference report was filed in the House on the same day on which it will be taken to the floor. In short, this budget process has dissipated more budget resources with less consideration, and less bipartisan involvement, than even than the prior landmark of fiscal irresponsibility, in 1981.

Tax Cuts

The conference agreement calls for a tax cut of \$1.284 trillion for 2002 through 2011 and an economic stimulus of \$100 billion in 2001 and 2002. The ten-year figure is somewhat larger than the \$1.25 trillion cut Republicans publicly accepted earlier this week. This is because it includes the part of the stimulus package that occurs in 2002 and a reduction of Securities and Exchange (SEC) fees in addition to the basic \$1.25 trillion package.

- ***True Cost of the Tax Cut*** — The ten-year tax cut in the conference lies between the \$1.6 trillion figure in the House-passed resolution and the \$1.2 trillion figure in the Senate-passed resolution. Including the added spending for interest on the national debt, the tax cut's total claim on the surplus for 2002 through 2011 is \$1.668 trillion.

- ***Economic Stimulus*** — The \$100 billion tax cut for 2001 exceeds both the trivial \$5.8 billion cut in the House-passed resolution and the \$85 billion cut in the Senate-passed resolution. The \$85 billion of the stimulus that occurs in 2001 appears in the conference agreement as spending, though it may somehow be administered through the tax system, while \$15 billion of the stimulus appears as a tax cut in 2002.
- ***Reconciliation*** — The conference agreement calls for a reconciliation bill from the Ways and Means Committee on May 20 to embody the tax cut. This means that the Ways and Means Committee will have a little over two weeks to decide on the largest single budgetary change in the budget.
- ***Explosion of Cost After 2011*** — The tax cut is extremely back-loaded, with almost two-thirds of the revenue loss in the second five years and a 2011 cut of \$191 billion. This long phase-in means that, even if no additional tax cuts are passed and the tax base grows more slowly, the cost of the tax cut will explode at the same time that Social Security and Medicare are most vulnerable. For instance, if the tax base after 2011 grows 0.5 percentage point more slowly than CBO projects for the next ten years, the tax cut's revenue loss in 2012 through 2021 will be \$2.457 trillion. Including the added spending on public indebtedness, the total impact on the surplus in the second ten years is over \$4 trillion.
- ***More Tax Cuts to Come*** — Several Republican Members of the Congress, including Members of the Republican leadership, have declared that they intend to enact tax cuts in addition to those called for in the conference agreement. There may be a strategy to enact less popular tax cuts using the procedural protections of reconciliation and later move more popular items without such protections. This, of course, would add to the total cost of tax cuts enacted this year, as well as the explosion of costs after 2011.

Prescription Drugs and Medicare Reform

The conference agreement increases overall net Medicare spending by \$313.7 billion relative to current law over ten years (2002-2011). Of this amount, \$300.0 billion is for a Medicare prescription drug benefit and an undefined Medicare reform package. The remaining \$13.7 billion is for Medicare home health. Although this amount is almost double the amount provided in the House-passed budget for prescription drugs and reform, a meaningful Medicare drug benefit coupled with reform is likely to require more resources than the conference agreement provides.

The House Democratic alternative included \$330.0 billion over ten years (2002-2011) solely for a Medicare prescription drug benefit.

- ! ***Inadequate Resources for Prescription Drugs and Unspecified Medicare Reform—***
Last year's House Republican plan was solely for prescription drugs. It carried a ten-year price tag of \$159 billion, and it would cost more than \$200 billion if it were offered today

because prescription drug prices increased in the last year. The amount provided in the conference agreement is clearly inadequate to provide a real Medicare prescription drug benefit and reform of the Medicare program unless existing benefits and provider payments are cut or payroll taxes are increased.

- ! ***Solvency of the Medicare Hospital Insurance (HI) Trust Fund*** — The conference agreement appears to allow the HI (Part A) Trust Fund to be tapped for the prescription drug and Medicare reform package. If so, the conference agreement would shorten the solvency of the trust fund. Furthermore, although it is known that Medicare requires resources outside the Medicare program to ensure its future long-term solvency, the conference agreement ignores this fact and does not devote new resources to shoring up the trust fund.

Under current law, the HI (Part A) Trust Fund is dedicated to pay solely for benefits related to hospital, skilled nursing home, hospice, and certain home health services. Monies diverted from the trust fund for any purpose must be paid back with interest. However, the conference agreement does not require revisions in current law. It is unclear if the conference agreement intends to eliminate the payback requirement.

The House Democratic alternative did not tap the HI Trust Fund to pay for the prescription drug benefit. New resources were included to fund the Medicare prescription drug benefit. In addition, the Democratic budget provided Medicare with additional funds to extend the solvency of the trust fund.

Medicaid and the Uninsured

- ! ***Medicaid*** — Unlike the House-passed budget and the House Democratic alternative, the conference agreement includes the President's additional constraints on Medicaid's upper payment limit (UPL) included in his 2002 budget. The additional UPL constraints cut Medicaid spending by \$10.7 billion relative to current law over ten years (2002-2011). These additional limits on UPL may result in hardships for certain states such as California, Illinois, Louisiana, and New York. Last year, Congress closed loopholes to prevent states from increasing their federal Medicaid payments without increasing health services.

- ! ***Increased Spending for Health Insurance for the Uninsured*** — The conference agreement increases spending for the uninsured by \$54.7 billion relative to current law over ten years (2002-2011).

The spending increase covers the following proposals: 1) \$28.0 billion for the Medicaid or State Children's Health Insurance program; 2) \$8.0 billion for the enactment of "The Family Opportunity Act" (a bipartisan proposal allowing states to expand Medicaid coverage to children with disabilities provided that family income does not exceed 300 percent of poverty); and 3) \$18.7 billion for the refundable portion of the health insurance tax credit.

Appropriated Programs

Appropriated programs, also known as “discretionary” programs, are those controlled by the annual appropriations process. The conference agreement provides \$666.6 billion in budget authority for appropriated programs for 2002, which is \$6.0 billion more than the House-passed budget but \$21.8 billion less than the Senate-passed budget. The conference agreement also establishes “firewalls” between defense and non-defense appropriations (non-defense includes international affairs).

- ***The Conference Agreement Shirks Basic Task*** — The aggregate level for appropriated programs is provided by the conference agreement. However, instead of making policy recommendations for the level of appropriated funding for each function of the budget, the conference agreement assumes the CBO baseline level (which measures the funding needed to maintain purchasing power at the 2001 level), and then uses a plug in a catchall function known as “Allowances” to make the numbers add up. Funding for defense appropriations is the only exception, but even the defense levels are expected to change as soon as the Administration completes its review of defense requirements (see *National Defense* for discussion). The resolution thus does not recommend funding levels for health, education, the environment, transportation, law enforcement, veterans, or any other appropriated program. Budgets should set spending priorities; the conference agreement fails to meet this basic responsibility.
- ***The Senate’s Increases for High Priority Programs Are Abandoned*** — The Senate added \$27.8 billion to the House-passed budget for appropriated programs that enjoy bipartisan support, such as education, scientific research, environmental protection, health, law enforcement, and veterans health care. The conference agreement only increases funding for non-defense programs by a total of \$6.0 billion more than the House-passed budget, so it drops 78 percent of the Senate increases.
- ***The Conference Agreement Does Not Increase Appropriations by Five Percent*** — Republicans are likely to claim that the conference agreement increases funding for all appropriated programs by either 4.9 or 5.0 percent. However, this claim is inaccurate because the comparison the Republicans make between 2002 and 2001 takes credit for advance appropriations Congress made last year and one-time-only emergency funding for natural disasters. If an “apples to apples” comparison is done between 2001 and 2002 to adjust for these anomalies, then the total overall increase is actually 3.8 percent,¹ which is just about the amount necessary to maintain purchasing power at the 2001 level (see table below). In addition, even using the flawed methodology that concludes there is a 4.9 percent increase for 2002, appropriations only grow 2.6 percent per year thereafter.

¹This analysis and those that follow in this section do not include mandatory contract authority for transportation programs.

- ***The Conference Agreement Cuts Domestic Appropriations*** — One can reasonably deduce the total amount available for domestic appropriations because the funding levels for defense and the emergency reserve are provided by the conference agreement, and the House- and Senate-passed budgets included identical amounts for international affairs funding. As the table below indicates, domestic appropriations are actually cut by 1.2 percent compared to the level needed, according to CBO, to maintain purchasing power at the 2001 level (the CBO Baseline column of the table).

Appropriated Funding in the Conference Agreement		
	<u>Above/Below 2001</u>	<u>Above/Below CBO</u>
		<u>Baseline</u>
What Republicans May Claim:	5.0%	NA
Actual Total Change*	3.8%	0.0%
Defense	4.4%	1.0%
International	5.7%	3.0%
Domestic	3.1%	-1.2%

* *The actual change and the percentage changes for defense, international, and domestic appropriations include adjustments for anomalies such as advance appropriations and exclude one-time-only emergency funding in both 2001 and 2002.*

- ***Most Domestic Appropriations Will Be Cut More than 1.2 Percent*** — As the table above indicates, the conference agreement cuts domestic appropriations for 2002 by 1.2 percent in aggregate. However, several domestic programs, particularly education and research funding for the National Institutes of Health (NIH), are likely to be increased, so the cut to the remaining domestic programs will be even larger. If funding for education, NIH, and veterans health care remain at the House-passed levels and the entire \$6.0 billion increase above the House-passed budget goes to other domestic programs (a highly unlikely assumption), the conference agreement still cuts these remaining domestic programs 3.7 percent. To the degree that other programs are shielded from this cut, the remaining programs will be cut still further.
- ***The Ten Year Outlook for Domestic Appropriations is Grim*** — Assuming that the emergency reserve fund continues to be funded at the 2002 level of \$5.0 billion and that funding for international affairs will be appropriated at the House-passed level in all ten years of the conference agreement (2002 - 2011), then domestic appropriations in all ten years will be below the 2001 constant purchasing power level (CBO baseline) by a total of

\$40 billion over the ten year period. Given that domestic appropriations consistently grew in inflation-adjusted terms from 1962 - 2001, an era in which there were concerted efforts to rein in spending due to chronic deficits, this is a highly unrealistic level of funding.

National Defense

The conference agreement provides \$325.1 billion for defense appropriations for 2002, which includes funding for the Department of Defense, the nuclear weapons-related activities of the Department of Energy (DOE), and miscellaneous national security activities in various other agencies such as the Coast Guard and the Federal Bureau of Investigation. This level of funding is about \$200 million more than both the House-passed budget and the President's budget, and is \$9.7 billion less than the Senate-passed budget and \$2.5 billion less than the House Democratic alternative.

- ***The Defense Budget is Still Missing in Action*** — The level of funding in the conference agreement for national defense is a “placeholder” until the Administration completes ongoing reviews of defense strategy and requirements. Later this year, possibly in June, the Administration is expected to request additional funds for defense for 2002 and beyond. According to an April 27 article in *USA Today* and a May 1 article in *The Wall Street Journal*, the Administration is expected to request between \$175 billion and \$300 billion more for defense over the next six years (2002 - 2007). Using conservative estimates, if \$250 billion is provided for this period and then maintained over the last four years (2008 - 2011) of the ten-year budget window (2002 - 2011), then the surplus levels in the conference agreement would be reduced by more than \$400 billion (excluding interest costs). If such a defense increase is coupled with tax cuts likely to be enacted beyond the conference agreement's \$1.3 billion level, then the Republican budget will tap into the Medicare surplus in all of the next ten years and likely will tap into the Social Security surplus in eight of the next ten years as well (see *Overview* for full discussion).
- ***2001 Defense Supplemental*** — The conference agreement also provides \$6.5 billion for defense supplemental appropriations for 2001, which were not included in either the House- or Senate-passed resolutions or the President's budget. This level is \$600 million less than the funding contained in the House Democratic alternative.
- ***Ten-Year Outlook in the Conference Agreement*** — As discussed above, the Administration is expected to request substantially more funding for defense than is contained in the conference agreement. However, if one takes the conference agreement at face value, then over the ten year period (2002 -2011) it provides a total of \$30 billion less for defense than the House-passed budget. This level is a total of \$37.6 billion more over the 2002 - 2011 period than is needed to maintain purchasing power each year at the 2001 level, and is \$78.1 billion less than the Democratic Budget alternative over this same period.

Education

For education, training, and social services, the conference agreement cuts virtually all of the additional funding added in Senate amendments approved on a bipartisan basis.

- ! ***Totals for Appropriated Programs Are Mere Placeholders***— For appropriated programs, the conference agreement does not provide budget totals that reflect policy assumptions. As with other areas of the budget, the conference agreement simply sets discretionary education spending levels at current services baseline: \$64.4 billion for 2002 and \$705.4 billion over ten years. If taken at face value, these levels would be less than the House-passed resolution by \$0.9 billion for 2002 and by \$21.2 billion over ten years.
- ! ***Mandatory Program Totals Drop Senate Education Amendments*** — The conference agreement's funding levels for mandatory programs clearly reject the Senate amendments that added substantial new resources for education. The conference agreement provides \$192.8 billion over ten years for mandatory programs for education, training, and social services, only \$8.9 billion more than spending under current law and \$6.5 billion more than in the House-passed budget. The Harkin education amendment and the Breaux-Jeffords special education amendment together added nearly \$294 billion over ten years in mandatory spending to the House-passed budget. The conference agreement provides \$287.8 billion below the amount provided in the Senate-passed budget, eliminating 98 percent of the Senate's increase.

Agriculture

Recognizing that the spending levels in President Bush's budget and the House-passed resolution were inadequate to address the crisis in rural America, the conference agreement provides an additional \$70 billion over the ten-year period (2002-2011) for agriculture. The conference agreement also adds \$5.5 billion for 2001 to meet immediate needs. For 2002, the conference agreement provides \$7 billion more than the amount currently assumed in the budget for farm programs. Since the levels for appropriated programs in the conference agreement are set at the current services baseline, it is unclear what policy decisions are assumed for the delivery system for these important farm programs.

Veterans

In total over the ten-year period (2002-2011), the conference agreement provides \$21.0 billion more than the President's budget and \$11.4 billion more than the House-passed resolution for veterans programs. The increase is intended to improve veterans education and other benefits, but falls \$1 billion short of the increase provided in the House Democratic alternative. The conference agreement increases spending by \$6 billion over current law for mandatory programs,

and keeps purchasing power constant for appropriated programs. Because the level of funding for appropriated programs is set at the current services baseline, the increases provided in the House and Senate for medical care and other discretionary veterans programs have been dropped from the conference agreement.

Low-Income Programs

The conference agreement increases mandatory low-income spending relative to current law by \$18.9 billion over ten years, approximately \$300 million more than the amount included in the House-passed budget. Refundable tax credits associated with Administration and House-passed tax proposals account for almost all of the House-passed budget spending in this area. The conference agreement addition probably reflects a Senate-passed provision adding \$319 million to extend the Temporary Assistance to Needy Families (TANF, or welfare) Supplemental Grants through 2002. The Administration and House-passed budgets allowed these grants to expire after 2001. Conferees appear to have rejected a Senate amendment raising Social Services Block Grant (SSBG) funding to \$2.38 billion for 2002.

The House Democratic alternative, in contrast, did the following for low-income programs: provided \$24.6 billion over ten years to preserve TANF funds for low-income families, increase child care resources, improve access to food stamps, and extend Supplemental Security Income (SSI) to certain immigrants; raised SSBG to \$2.38 billion in 2002; and provided \$60.8 billion to expand and simplify the Earned Income Tax Credit for working families.

Appropriated Health Programs

! ***National Institutes of Health (NIH)*** — According to documents provided by the Republicans, the conference agreement increases NIH funding by \$2.8 billion over the 2001 enacted level. This increase is the fourth installment in a five-year commitment to double the NIH budget relative to the 1998 level.

The NIH increase comes at the expense of other health programs such as Ryan White AIDS treatment grants, maternal and child health block grant, Centers for Disease Control, or the Food and Drug Administration. Under the conference agreement, overall funding for appropriated programs is increased only by the amount CBO states is required to maintain pace with inflation. Therefore, increasing 2002 funding for NIH by \$2.8 billion results in a corresponding cut to other programs in the function.

The House Democratic alternative also increased NIH funding for 2002 by \$2.8 billion. However, it did not cut other vital health programs in order to boost the NIH funding level. In the Democratic budget, funding levels for other programs increased with inflation.

Other Programs

As explained in the *Overview* and *Appropriated Programs*, the conferees were unable to resolve spending differences in all of the non-defense budget functions. Therefore, they decided to put a plug number in each budget function equal to the amount needed to keep pace with inflation. Thus, the total funding levels for virtually all budget functions (except defense, net interest, and offsetting receipts) are rendered meaningless as well.

As a result, this analysis focuses upon the relatively few concrete policy choices the conference agreement makes and upon aggregate levels of appropriations. Due to the lack of specificity in the conference agreement, this analysis cannot discuss or examine many specific programs and functions in the budget as has normally been done in past years.

The primary function of the budget is to set funding priorities and establish the broad parameters of the fiscal trade-offs among national priorities. This conference agreement fails to meet this basic and fundamental responsibility, and thus represents a serious failure in governance.

General Notes

- ! All years are fiscal years unless otherwise noted.
- ! Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- ! Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- ! Unless otherwise noted, all references to the CBO baseline refer to the March 2001 baseline.
- ! Numbers may not add due to rounding.

APPENDIX: POLICIES NOT INCLUDED IN THE BUDGET

The Administration has taken pride that it has withheld judgment on defense spending pending completion of a comprehensive review. But the administration has taken a completely different tack on the budget as a whole, of which the unspecified defense budget will be about one-fifth; it has taken a hasty guess as to the appropriate size for a tax cut, and attempted to write that number quickly into stone. Meanwhile, press reports indicate that the defense review could ask for an additional half-trillion dollars over ten years — more than the entire non-Social Security, non-Medicare surplus in the conference agreement. Congressional appropriators of both parties believe that the non-defense discretionary funds in the conference agreement, especially in future years, are wholly inadequate. Furthermore, Republicans in the Congress and in the administration are virtually advertising their intent to violate the supposed agreement on the size of the tax cut, and to dissipate even more of the surplus:

“There are different ways to skin this cat,” said Sen Phil Gramm, Texas Republican, who noted that there will probably be additional tax cuts voted on later in the year for small businesses and individual retirement accounts after the Congress finishes its work on Mr. Bush’s pending tax-cut package.

“I’m not convinced that we can’t get to \$1.6 trillion before it’s over. I’m not giving up,” said Mr. Gramm, a member of the House-senate conference attempting to iron out tax-cut and spending differences in the budget resolution that could be finalized by week’s end...

“I’m going to make it clear when we vote on this budget that I’m not bound by the tax numbers. If we put some tax-cut provisions in a minimum wage bill and it exceeds what’s in the budget, I’m going to vote to waive the rule,” Mr. Gramm told *The Washington Times*...

“We might have to take up some parts of the package, like repeal of marriage penalty or the death tax, at a later time as free-standing bills,” said a senior adviser to the president. “They are very popular tax cuts and it is hard [to] see them losing in this Congress.”

“Compromise could yield Bush’s \$1.6 trillion tax cut”
Washington Times, May 2, 2001

Several lawmakers said they will seek to pass more tax cuts later in the year, perhaps attached to legislation boosting the minimum wage, if they could overcome the 60-vote hurdle.

“This is a step in the right direction,” said Sen. Kay Bailey Hutchison (R-Tex.), “but I hope we can come up with more tax cuts in a later package.”

“Tax Cut Compromise Reached”
Washington Post, May 2, 2001

At the reduced \$1.35 trillion level, trade-offs within Mr. Bush's agenda are inevitable. According to people familiar with the negotiations, senators are mulling how much can be squeezed into the smaller package and whether to leave out for now some popular items, such as easing the so-called marriage penalty in the tax code or repealing the federal estate tax. One question is whether those could be moved later this year.

“Accord Is Set on \$1.35 Trillion Tax Cut”
Wall Street Journal, May 2, 2001

It is unclear how Congress will balance the pressures for additional spending with its commitment to avoiding a return to budget deficits and the stated desire of many Republicans to seek additional tax cuts this year beyond those called for in the budget.

Some Republicans are already considering pairing an increase in the minimum wage this year with a reduction in the capital gains tax. There is also considerable bipartisan support for a measure that the House plans to take up on Wednesday that would expand the popular 401(k) and individual retirement account programs.

“GOP Lawmakers and White House Agree on Tax Cut”
New York Times, May 2, 2001

[Senate Majority Leader Trent] Lott said that a 10-year tax cut of \$1.25 trillion would not be enough to fund all of Bush's top four tax cut priorities — reducing marginal tax rates, phasing out the estate tax, providing marriage penalty relief, and doubling the per-child tax credit to \$1,000...

Lott noted, however, that he might opt to move one or more tax bills this year separately from the tax-cutting reconciliation bill that will include most of the tax provisions. “Remember this — [tax] bills can still be brought up without the protection of the procedure that guarantees it can't be filibustered,” Lott said. “We could bring up some part of the tax package under regular order and I believe some parts of it would get the necessary 60 votes to go forward.”

“Bush, Top GOP Congressional Leaders Announce Accord on \$1.35 Trillion Tax Cut”
BNA, May 2, 2001

[Senate Finance Committee Chairman Charles E.] Grassley said he continued to expect that other tax measures could be brought up later in the year as part of legislation dealing with other issues, including a minimum wage hike.

“Finance Members Discuss What Cuts Can Fit in \$1.35 Trillion Reconciliation Bill”
BNA, May 2, 2001

Bush Deficits Invade Social Security and Medicare Trust Funds

Trillions of Dollars, 2002-2011

Total (Unified) Surplus	5.610
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Less: Social Security Surplus	2.488
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Medicare Surplus	0.393
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Available Surplus	2.729
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Less: Tax Cuts	1.284
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Medicare & Other Health	0.358
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Agriculture, Vets & Other	0.141
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Associated Debt Service	0.514
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Resulting Surplus	0.434
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Less: Rumsfeld Defense Plan	0.414
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Fix New AMT Problems	0.293
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Additional Tax Cuts	0.182
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Associated Debt Service	0.208
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Resulting DEFICIT	-0.662
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BUDGET CONFERENCE AGREEMENT THREATENS MEDICARE AND SOCIAL SECURITY

(Billions of dollars; CBO January assumptions)

(All amounts are House Budget Committee Democratic Staff approximations based on press accounts and past legislation)

CONFERENCE AGREEMENT	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
Baseline Unified Surplus	281	313	359	397	433	505	573	635	710	796	889	5,610
Social Security	156	171	188	201	221	238	257	276	294	312	331	2,488
Medicare Part A	29	36	39	41	40	44	41	41	39	37	34	393
Available Surplus	96	106	132	155	172	223	275	318	377	447	524	2,729
Permanent Tax Cut	0	50	76	84	97	138	141	153	166	171	191	1,269
Stimulus Tax Cut	85	15	0	0	0	0	0	0	0	0	0	15
Medicare Rx and Home Health	0	0	1	11	22	29	41	46	49	54	61	314
Other Health	0	7	12	11	2	2	2	2	2	2	2	44
Agriculture	6	7	8	8	8	8	8	7	6	6	6	70
Veterans	0	0	1	1	1	1	1	1	0	0	0	6
All Other	2	10	8	3	5	3	7	7	7	7	7	65
Resulting Net Interest	2	7	13	19	27	37	50	64	80	98	117	514
"Contingency Reserve" 1/	1	9	15	18	9	6	26	38	66	108	139	434
LIKELY FURTHER ACTION	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
Defense Increase 2/	0	6	33	43	46	47	48	48	48	48	48	414
AMT 3/	0	1	4	7	13	21	37	43	49	55	63	293
Tax "Extenders" 4/	0	1	2	3	3	4	4	5	5	6	7	41
Business Tax Cuts 5/	0	3	4	4	4	4	3	3	3	4	4	36
Health Tax Cuts 6/	0	0	2	4	6	6	7	7	7	7	7	53
Retirement Tax Cuts 7/	0	1	3	3	4	5	6	6	7	8	8	52
Resulting Net Interest	0	0	2	5	9	14	20	27	35	44	53	208
Resulting Surplus / Deficit	1	-4	-35	-51	-76	-95	-99	-101	-88	-63	-52	-662
Spending of Medicare Surplus	0	-4	-35	-41	-40	-44	-41	-41	-39	-37	-34	-356
Spending of Social Security Surplus	0	0	0	-10	-36	-51	-57	-60	-49	-26	-17	-306

1/ Also equal to the non-Social Security, non-Medicare surplus.

2/ Defense increase of \$250 billion in budget authority over six years to April 2001 defense plan, with increases maintained from 2008 through 2011.

3/ Cut necessary to undo AMT effects of H.R. 3, as estimated by Joint Tax Committee.

4/ From CBO Budget and Economic Outlook, January 2001, excluding AMT treatment of nonrefundable credits and R&E tax credit.

5/ Small business tax title of H.R. 5542, the "Taxpayer Relief Act of 2000."

6/ Receipt effect of Administration-proposed refundable tax credit for purchases of health insurance; Treasury scoring.

7/ Cost of H.R. 10.

House Budget Committee Democratic Staff